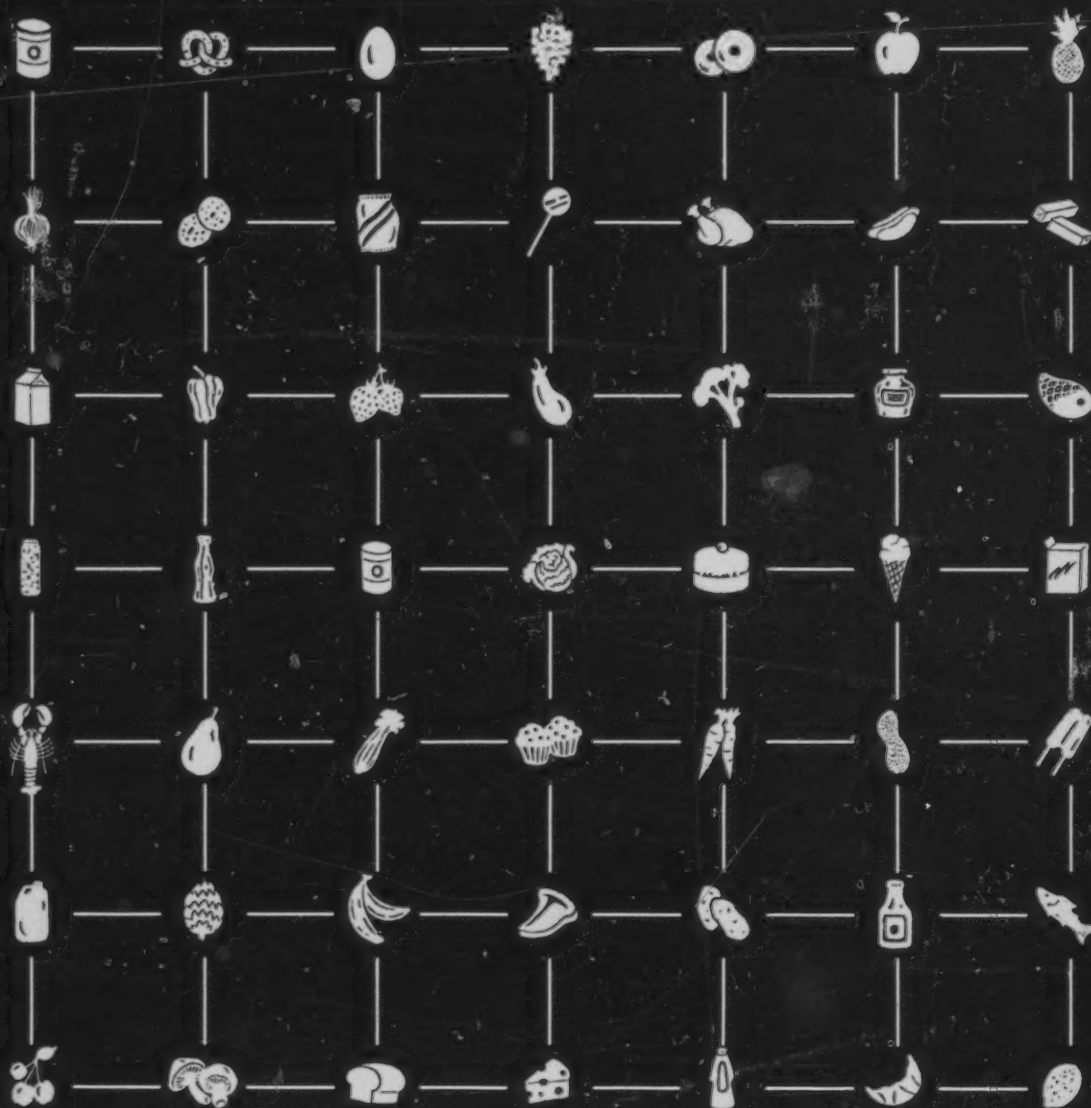


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1986/87

ANNUAL FINANCIAL REVIEW



The Annual Report of the Supermarket Companies



1986-1987

ANNUAL FINANCIAL REVIEW

OF THE

SUPERMARKET

COMPANIES

Conducted by:

Gerke Economics, Inc.
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1750 K Street, N.W.
Washington, DC 20006

Financial data collected by
Williams-Keepers
Certified Public Accountants

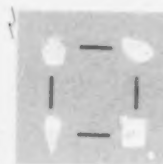
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The Food Marketing Institute (FMI) is a nonprofit association conducting programs in research, education and public affairs on behalf of its 1,500 members — food retailers and wholesalers and their customers in the United States and overseas. FMI's domestic member companies operate more than 17,000 retail food stores with a combined annual sales volume of \$180 billion — half of all grocery sales in the United States. More than three-fourths of the FMI's membership is composed of independent supermarket operators or small regional firms. Its international membership includes more than 150 members from 43 nations.

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EXECUTIVE SUMMARY



The 1986-1987 *Annual Financial Review* (the *Review*) was designed to promote a better understanding of the economics of the supermarket industry. The Food Marketing Institute (FMI) has been tracking the financial performance of the supermarket industry for the past 15 years.

The *Review* was conducted for FMI by Gerke Economics, Inc., a firm that has been researching the food industry since 1977. Information was derived from an extensive mail survey and public financial reports. Data were collected from 140 companies operating more than 13,000 supermarkets. In addition, the annual reports of more than 20 public companies were reviewed to gain insights into the financial trends.

The results indicate that average supermarket company profit margins declined slightly in 1986-87. Net income as a percentage of sales was 1.12 percent in 1986-87 compared with 1.19 percent a year earlier. Increased interest expenses (from greater debt) and higher taxes contributed significantly to the decline. Helping to improve net income was a gain in extraordinary items — most likely from the sale of stores or other assets.

The industry is going through a dynamic period. Mergers, acquisitions, leveraged buy outs, asset sales and company restructurings are occurring at an accelerated pace. The extensive use of debt to finance acquisitions and recent major leveraged buy outs have affected the industry balance sheet. In particular, the financial restructuring of major food retailers had a significant impact on the financial statements in this year's *Review*.

For years the industry's balance sheet was stable, but 1986-87 brought dramatic shifts in how the industry is financed. Debt as a percentage of total liabilities and net worth increased to 69.38 percent, compared with 63.37 percent during the previous period. This represents a sharp increase after a long period of stability in this ratio. For more detailed information, see the "Financial Statements" section of this report, pp. 11 to 15.

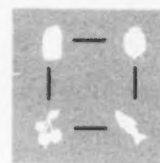
In order to increase sales, companies continue to open more stores and enlarge their old ones. Still quite popular is the "super store," which typically carries 40,000 square feet of selling space or more. They offer such speciality services as in-store scratch bakeries, salad and soup bars, video rentals, floral departments and pharmacies. Operators are upgrading many conventional stores to the super store class. Also widespread is the basic remodeling of conventional stores to appeal to current lifestyles.

In a continuing effort to reduce costs, many companies are increasing their reliance on automation. They report greater use of scanning, computers and communications technology. New distribution centers with advanced technology also are appearing. In this highly competitive industry, management continues to emphasize cost control and organizational efficiency.

Naturally, all these developments have affected company income statements and balance sheets. Profits and net worth have declined in the latest reporting period. However, significant future improvement in both is likely as recent changes yield results on the bottom line.

Profit performance measures showed mixed results this year. Profit margin as a percentage of total sales declined (1.19 percent to 1.12 percent), along with return on assets (5.80 percent to 5.70 percent). Return on net worth, however, increased (15.82 percent to 16.24 percent).

FINANCIAL DATA AND RATIOS



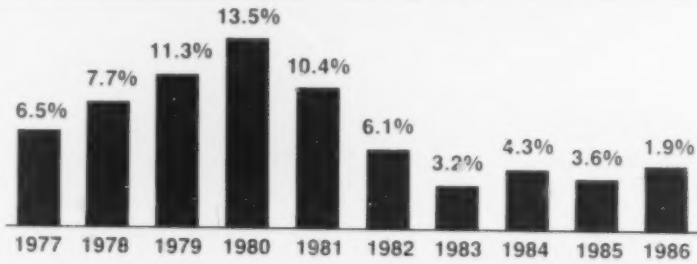
Selected Economic Data

Inflation fell to a low level during 1986. As measured by the consumer price index (CPI) for all urban consumers, it was only 1.9 percent — about half the 1985 rate of 3.6 percent. The CPI for food at home, however, was 2.9 percent, about twice the 1984 rate of 1.4 percent. The last time inflation for food at home exceeded the general CPI was 1978. During the intervening years, as long as food prices increased less than the general inflation rate, the supermarket industry was put in a “cost-price squeeze” — the cost of doing business was increasing faster than retail prices.

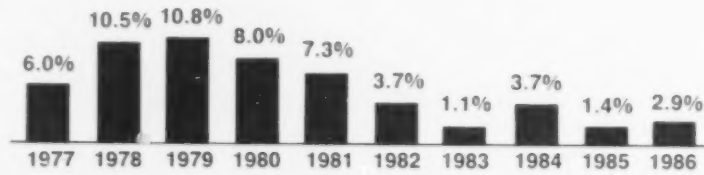
Interest rates continued to fall in 1986. The average prime rate charged by banks was 8.33 percent in 1986 compared with 9.93 percent a year earlier. Interest rate declines have paralleled the decline in inflation rates for the last several years.

With interest rates at about 8 percent and inflation at 2 percent, the “real” interest rate for 1986 was still much greater than the historical 3 to 4 percent. However, the “real” interest rate compared to the interest rate in 1985.

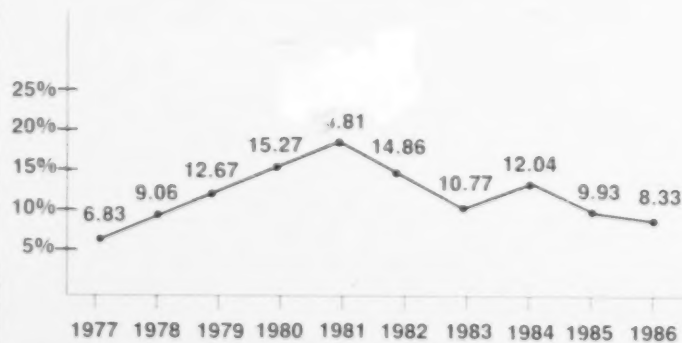
Consumer Price Index for All Urban Consumers
Annual Percentage Change for All Items (1967 = 100)



Consumer Price Index for Food at Home
Annual Percentage Change



Interest Rates
Average Prime Rates Charged by Banks



Key Financial Ratios

In measuring profitability, three financial ratios together provide an overall picture of the financial health of supermarket companies:

- Profit margin — net income after taxes as a percentage of sales. It measures the portion of the firm's sales dollar that is left after paying all expenses, including the cost of the products.
- Return on total assets — net income after taxes as a percentage of total assets. It measures the ability of a company's combined equity and debt capital to generate profits.
- Return on net worth — net income after taxes as a percentage of net worth. It reflects the earning power of the stockholder's equity in supermarket companies.

For supermarket companies in 1986-87, the after-tax profit margin declined to 1.12 percent, from the 1.19 percent reported in 1985-86. Overall, operating and sales costs were higher in 1986-87; so too was interest expense. Total taxes also increased. A gain resulting from "extraordinary items" (most likely from store sales) helped brighten the profit picture somewhat.

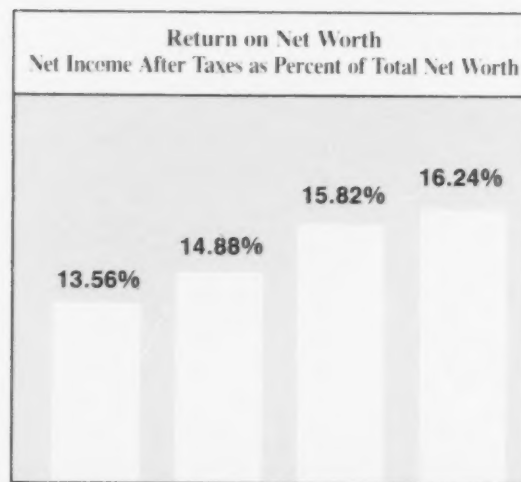
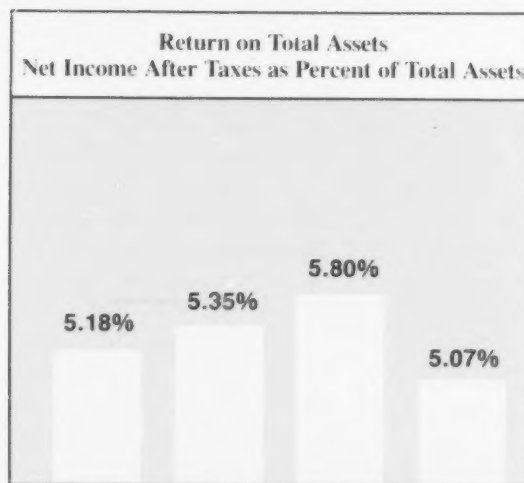
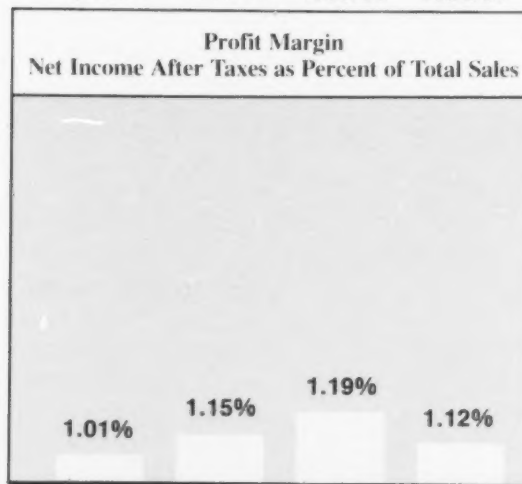
Return on total assets decreased from 5.80 percent to 5.07 percent in 1986-87. Much of the decrease may be attributed to lower profits and higher assets (on average) for the larger companies in the sample group.

Return on net worth for the responding companies was 16.24 percent — up from 15.82 percent for the previous year. This continues the upward trend in this ratio over the last few years.

Note: The companies surveyed are divided into two size groups for purposes of calculating the overall averages:

	Profit Margin	Return on Total Assets	Return on Net Worth
Less than \$100 million sales	1.13%	7.35%	20.05%
More than \$100 million sales	1.12%	4.08%	14.58%

1983/84 1984/85 1985/86 1986/87



Key Financial Ratios by Company Size

Profit Margin Net Income After Taxes as a Percentage of Sales			
	1984-85	1985-86	1986-87
Sales Under \$50 Million	0.78%	1.01%	0.76%
Sales of \$50-\$500 Million	0.83%	0.81%	0.90%
Sales Over \$500 Million	1.36%	1.32%	1.13%

Return on Total Assets Net Income After Taxes as a Percentage of Total Assets			
	1984-85	1985-86	1986-87
Sales Under \$50 Million	5.86%	6.90%	4.94%
Sales of \$50-\$500 Million	3.97%	3.86%	3.91%
Sales Over \$500 Million	5.75%	5.72%	4.12%

Return on Net Worth Net Income After Taxes as a Percentage of Net Worth			
	1984-85	1985-86	1986-87
Sales Under \$50 Million	16.35%	19.54%	16.25%
Sales of \$50-\$500 Million	11.01%	10.24%	11.90%
Sales Over \$500 Million	15.64%	15.78%	14.81%

Profit ratios were calculated for three company-size categories based on annual sales of:

- Less than \$50 million — small companies.
- \$50-\$500 million — mid-sized companies.
- More than \$500 million — large companies.

The profit margin for small firms declined to the 1984-85 level. The large firms also experienced a decline, while mid-sized ones experienced a modest gain.

In 1986-87, the largest firms had the highest profit margin, and the smallest had the greatest return on both total assets and net worth.

Much of the gain in profit margin for the mid-sized group was attributable to those companies having \$50-\$100 million in sales.

The mid-sized companies had about the same return on total assets as last year. The smallest and largest companies showed a decline in this ratio. Increased debt capital for the largest companies appeared to be a cause.

The mid-sized companies improved somewhat in return on net worth. The smallest and largest companies showed some decline.

Key Financial Ratios Adjusted for Inflation

The performance measures discussed in the previous section may be distorted by inflation. For comparison, ratios are presented on an inflation-adjusted basis in order to more accurately reflect the economic well-being of supermarket firms.

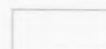
Low inflation during the past few years has brought real growth to the supermarket industry. The inflation-adjusted profit ratios have improved steadily the past three years, with the 1986-87 profit margin at 0.66 percent, return on total assets at 2.76 percent and return on net worth at 7.33 percent.

The inflation adjustments used in the *Review* are those prescribed by Statement of Financial Accounting Standards No. 33. Such adjustments restate "cost of sales" and "depreciation" from the historical values into current dollars. This removes impact of profits realized on inventory and increases the depreciation charge to reflect the current costs of replacing assets.

As Reported



Inflation Adjusted



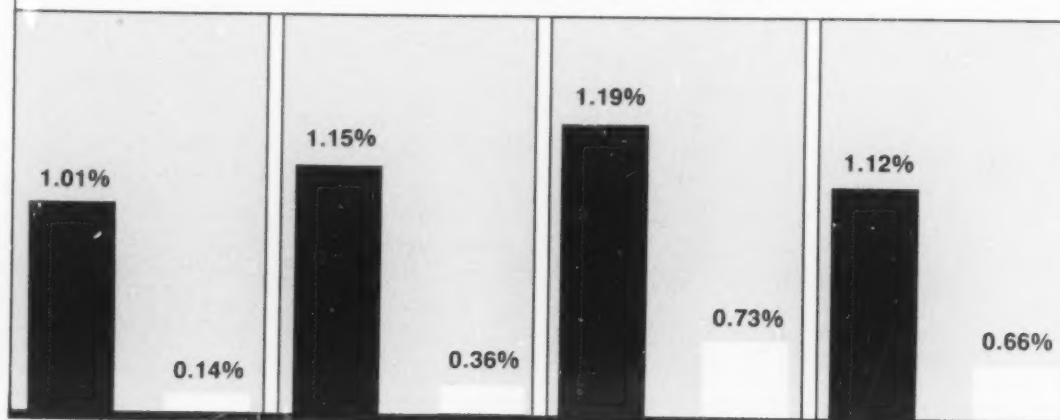
1983/84

1984/85

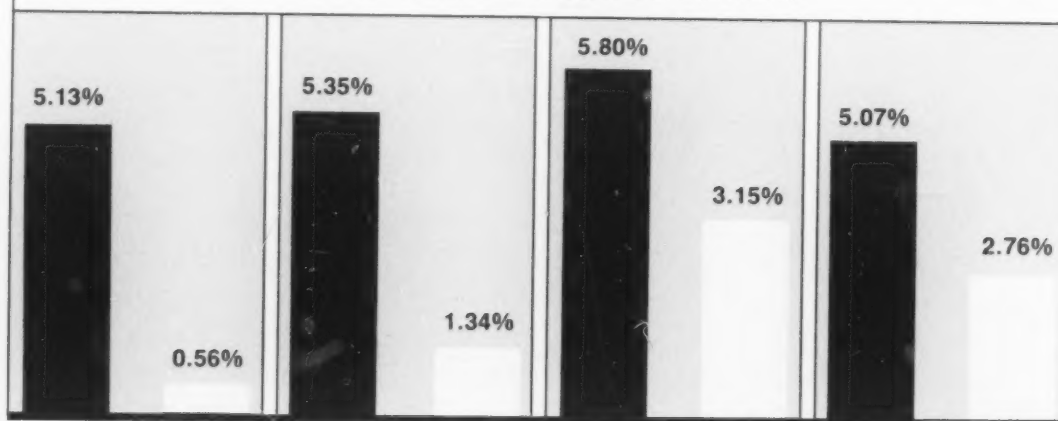
1985/86

1986/87

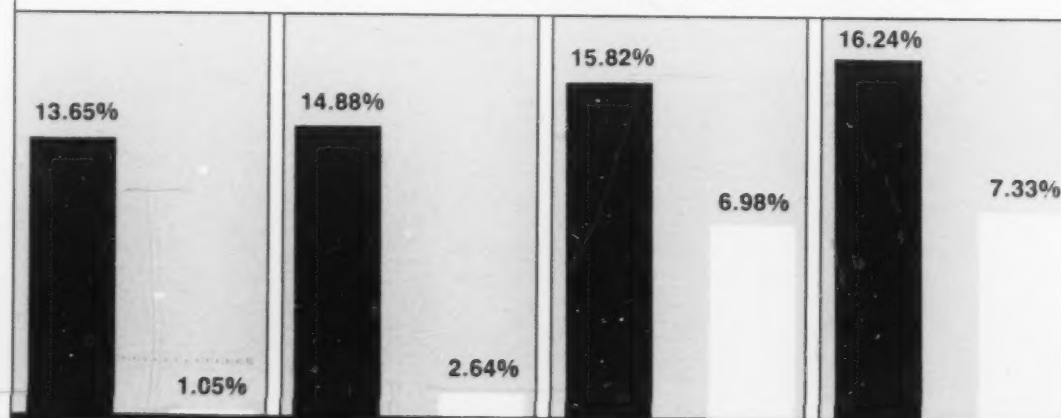
Profit Margin
Net Income After Taxes as Percent of Total Sales

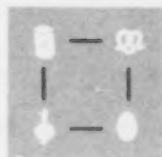


Return on Total Assets
Net Income After Taxes as Percent of Total Assets



Return on Net Worth
Net Income After Taxes as Percent of Net Worth





TAX RATES

Income Taxes

In 1986-87 income taxes paid by supermarket companies were 42 percent of pre-tax profits — a regression to the high 1983-84 tax level. The Tax Reform Act of 1986 is expected to lower effective income tax rates in the future. So too will asset sales that trigger the recapture of some prior depreciation credits — particularly where asset values appreciate in buy outs.

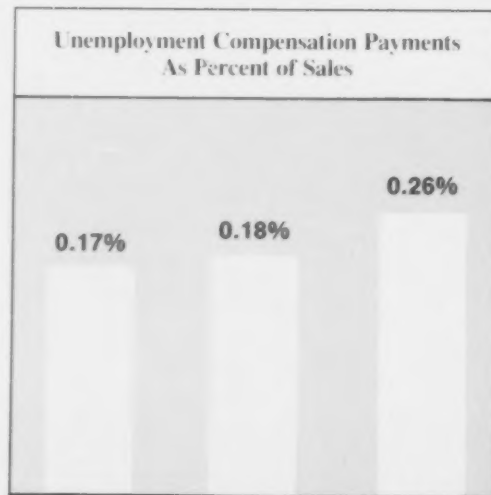
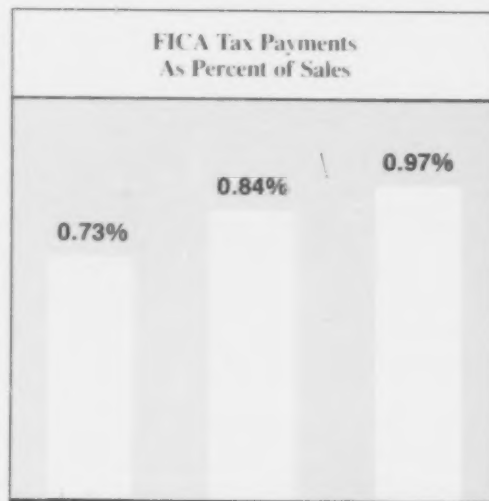
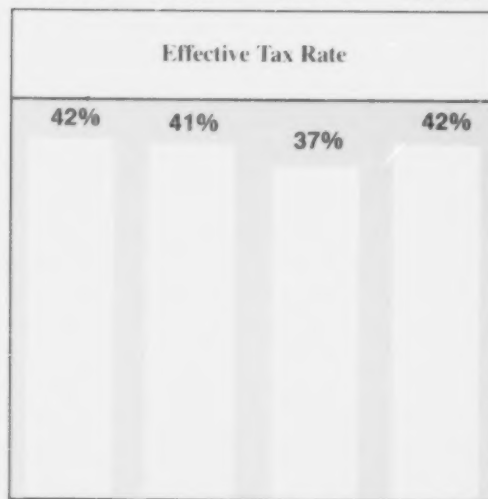
Income taxes affect corporations by consuming much of their "real" pre-tax profits. Income taxes for an individual company are based upon net income calculated on a historical-cost basis. For tax reporting, no adjustments are made to reflect the erosion of purchasing power that occurs through inflation. For example, depreciation expense for equipment is based on its actual cost rather than the cost of replacing it.

Wage Taxes

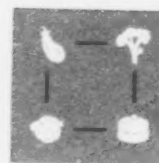
In addition to taxes on income, supermarkets pay taxes based on wages, such as payments for FICA and unemployment compensation.

In 1986-87, FICA tax payments equaled 0.97 percent of sales. This represents an increase from 0.84 percent in 1985-86 and reflects the impact of higher scheduled rates. Unemployment compensation payments jumped to 0.26 percent of sales from 0.18 percent a year earlier.

1983/84 1984/85 1985/86 1986/87



FINANCIAL STATEMENTS



Income Statement

The account balances in the income statement presented below have been expressed as percentages of sales.

Income Statement for Supermarket Companies (In Percentages; Sales = 100%)				
	1983-84	1984-85	1985-86	1986-87
Sales	100.00%	100.00%	100.00%	100.00%
Cost of Sales and Operating Expenses	98.20	98.12	97.84	98.76
Interest Expenses	0.46	0.52	0.55	0.61
Total Costs & Expenses	98.66	98.64	98.39	98.47
Operating Income	1.34	1.36	1.61	1.53
Other Income	0.36	0.43	0.23	0.20
Income Before Taxes	1.70	1.79	1.84	1.73
Total Taxes on Income	0.71	0.74	0.68	0.74
Extraordinary Items (Net)	0.02	0.10	0.03	0.13
NET INCOME	<u>1.01%</u>	<u>1.15%</u>	<u>1.19%</u>	<u>1.12%</u>

Balance Sheets

The figures in the balance sheet below are expressed as percentages of total assets.

End-of-Year Balance Sheet for Supermarket Companies (In Percentages; Total Assets = 100%)				
CURRENT ASSETS	1983-84	1984-85	1985-86	1986-87*
Cash	6.66%	6.26%	5.17%	5.66%
Accounts Receivable	4.33	4.24	3.91	4.24
Marketable Securities	2.78	3.35	2.76	3.52
Inventory (Note A)	31.47	31.66	31.92	27.35
Other Current Assets	3.64	2.94	3.45	3.16
Total Current Assets	48.88	48.45	47.21	43.93
PROPERTY AND EQUIPMENT (Note B)				
Land	2.93	3.80	3.92	3.59
Buildings	21.85	21.62	18.79	20.95
Fixtures and Equipment	44.07	43.52	47.88	38.56
Leasehold Improvements	10.08	10.35	9.77	10.73
Total Property and Equipment	78.93	79.29	80.36	73.83
Reserves for Depreciation	(33.23)	(33.18)	(33.93)	(30.94)
Net Property and Equipment	45.70	46.11	46.43	42.89
OTHER ASSETS	5.42	5.44	6.36	13.18
TOTAL ASSETS	100.00%	100.00%	100.00%	100.00%
Note A: Some firms value at least part of their inventory on a LIFO (last-in, first-out) basis. Note B: Property under capitalized leases is included in the appropriate property categories based on the type of property leased. *The financial restructuring of Safeway Stores Incorporated had a significant impact on the financial states in this year's Review.				

End-of-Year Balance Sheet for Supermarket Companies
(In Percentages; Total Liabilities and Net Worth = 100%)

End-of-Year Balance Sheet for Supermarket Companies (In Percentages; Total Assets = 100%)				
CURRENT LIABILITIES	1983-84	1984-85	1985-86	1986-87*
Notes Payable	2.12%	2.17%	2.71%	5.25%
Accounts Payable	22.68	22.39	21.63	19.00
Income Taxes Payable	1.35	1.19	1.48	1.69
Other Current Liabilities	10.40	10.18	9.78	12.97
Total Current Liabilities	36.55	35.93	35.60	38.81
LONG-TERM DEBT				
Mortgages	4.80	5.57	6.11	10.07
Bank Loans	4.67	6.78	6.95	5.18
Bonds and Debentures	2.72	2.54	3.37	4.37
Capitalized Lease Obligations	8.59	7.35	5.90	5.36
Other Non-Current Liabilities	2.69	3.16	2.61	2.41
Total Long-Term Debt	23.47	25.40	24.94	27.39
Deferred Liabilities	2.48	1.81	2.83	3.19
TOTAL LIABILITIES	65.20	63.14	63.37	69.38
NET WORTH				
Common Stock Outstanding or Proprietorship	4.19	3.62	3.95	3.74
Preferred Stock Outstanding	0.65	1.00	0.77	1.17
Paid-in Surplus	4.98	5.61	4.87	4.27
Retained Earnings	29.39	27.94	28.87	24.39
Treasury Stock	(1.71)	(1.31)	(1.83)	(2.95)
Total Net Worth	37.50	36.86	36.63	30.62
TOTAL LIABILITIES AND NET WORTH	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
*The financial restructuring of Safeway Stores Incorporated had a significant impact on the financial data in this year's Review.				

Historical vs. Inflation-Adjusted Balance Sheet Categories

Certain balance-sheet categories were expressed as percentages of total assets, both in historical dollars and inflation-adjusted dollars. The most significant impact of the inflation adjustments was to restate the value of "net property and equipment" in current-year dollars. (This increase also was added to "net worth.")

These adjustments recognize that the current costs of replacing existing supermarket properties are significantly higher than the depreciated historical cost. Investors in supermarket properties cannot realize those gains unless the company is dissolved or sold.

Balance Sheet Categories as a Percentage of Total Historical-Cost Basis				
ASSETS	1983-84	1984-85	1985-86	1986-87*
Inventory	35%	35%	35%	30%
Other Current Assets	17	16	15	14
Net Property and Equipment	43	44	44	43
Other Assets	5	5	6	13
Total	100	100	100	100
LIABILITIES AND TOTAL NET WORTH				
Current Liabilities	40	39	39	39
Long-Term Liabilities	25	26	26	30
Net Worth	35	35	35	31
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
*The financial restructuring of Safeway Stores Incorporated had a significant impact on the financial data in this year's Review.				

Balance Sheet Categories as Percentage of Total Adjusted for Inflation				
ASSETS	1983-84	1984-85	1985-86	1986-87*
Inventory	27%	27%	30%	27%
Other Current Assets	13	13	13	13
Net Property and Equipment	56	56	52	48
Other Assets	4	4	5	12
Total	100	100	100	100
LIABILITIES AND TOTAL NET WORTH				
Current Liabilities	31	30	34	35
Long-Term Liabilities	20	21	23	28
Net Worth	49	49	43	37
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
*The financial restructuring of Safeway Stores Incorporated had a significant impact on the financial data in this year's Review.				

Inflation Adjustments

The Financial Accounting Standards Board (the "FASB") has recognized that statements based on historical costs may not be meaningful in times of rapid inflation. As a result, Statement of Financial Accounting Standard (SFAS) No. 33 requires large companies to present data that reflect the impact of inflation. One method prescribed is to express the cost of sales and depreciation in current-year dollars. This approach, called constant-dollar accounting, removes the effect of inventory profits on cost of sales from the income statement and increases the depreciation charge to amounts reflecting the current cost of replacing assets. The Consumer Price Index for all urban consumers is used to make such adjustments.

After adjusting for the effects of inflation on cost of sales and depreciation, supermarket companies experienced a slight decrease in adjusted profit margin for 1986-87 — to 0.66. This compares to an adjusted 1985-86 profit margin of 0.73 percent.

Since food price inflation in 1986 was higher than in 1985, the adjustment for cost of sales was higher for 1986-87. The inflation rate for all items in 1986 was lower than 1985, resulting in a smaller adjustment for depreciation in 1986-87.

Net Income for Supermarket Companies Adjusted for Inflation (Expressed as a Percentage of Sales)				
	1983-84	1984-85	1985-86	1986-87*
Net Income, Historic Basis	1.12%	1.26%	1.25%	1.20%
Adjustments to Reflect the Impact of Inflation on:				
Cost of Sales	(0.28)	(0.31)	(0.16)	(0.26)
Depreciation	(0.70)	(0.59)	(0.36)	(0.28)
Net Income Adjusted for Inflation	0.14%	0.36%	0.73%	0.66%
*The financial restructuring of Safeway Stores Incorporated had a significant impact on the financial data in this year's <i>Review</i> .				

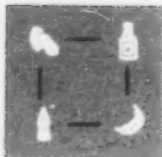
It is important, however, to consider one additional element during periods of inflation: gain or loss in purchasing power. In times of inflation, businesses that hold cash may lose purchasing power because their cash will buy less at the end of the period than at the beginning. On the other hand, entities that carry debt during inflationary periods may gain an advantage because their debts will be repaid with dollars with lower purchasing power.

SFAS No. 33 requires that the net of these gains and losses be disclosed separately from income from continuing operations. The separate disclosure requirement reflects the FASB's concern that a company can gain from borrowing. (The FASB believes that a gain in purchasing power associated with debt is a sign of

successful management only when the funds have been invested in assets that maintain their purchasing power.) As a result, the gains in purchasing power realized on monetary items have not been reflected in the inflation-adjusted data in this report.

The substantial increase from 0.48 percent in 1983-84 for adjusted net income to 0.89 percent in 1986-87 is due mainly to lower inflation rates — likewise the jump from 1983-84 to 1984-85 of 0.48 percent to 0.89 percent. In both cases, higher food inflation adversely affected net income because the gains in depreciation from lower inflation were offset by a loss in purchasing power. As a result, the gains in purchasing power realized by supermarket firms in monetary items have not been reflected in the inflation-adjusted data in this report.

Net Income for Supermarket Companies Adjusted for Inflation (Expressed as a Percentage of Sales)				
	1983-84	1984-85	1985-86	1986-87*
Net Income, Historic Basis	1.12%	1.26%	1.25%	1.20%
Adjustments to Reflect the Impact of Inflation on:				
Cost of Sales	(0.28)	(0.31)	(0.16)	(0.26)
Depreciation	(0.70)	(0.59)	(0.36)	(0.28)
Purchasing Power	0.34	0.38	0.30	0.23
Net Income Adjusted for Inflation	0.48%	0.74%	1.03%	0.89%
*The financial restructuring of Safeway Stores Incorporated had a significant impact on the financial data in this year's Review.				



METHODOLOGY

The *Review* was developed from two primary sources of data: a survey mailed to the members of FMI and annual reports filed with the SEC on FORM 10-K.

For 1986-87, most of the financial data were supplied by the companies that responded to the survey. Data were not used for any company with sales of less than \$2 million per store. Only firms with at least 50 percent of revenues from supermarkets were included in the sample.

Data for several large publicly traded companies were obtained from annual reports filed with the SEC. In all, data were collected from 140 companies that operated 13,346 stores. These firms accounted for sales of \$130 billion.

The sample of firms in this survey included 51 companies with sales of less than \$50 million, 46 companies with sales of \$50-\$500 million and 43 companies with sales of more than \$500 million. The sample size in this survey varies from year to year, especially among the smaller firms. Some of the year-to-year changes in profitability may be due to a change in the companies responding to the survey.

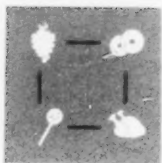
The *Review* samples supermarket companies. These companies may obtain some of their revenues from sources other than supermarkets. In the sample for 1986-87, the smaller companies (sales of less than \$50 million) generated about 99 percent of their revenues through supermarkets. The mid-sized companies (\$50-\$500 million) generated about 98 percent of their sales from supermarket operations. On average, the larger firms in the sample (more than \$500 million) generated 95 percent of their revenues from supermarkets.

Financial data were collected for company fiscal years ending between April 1, 1986, and March 31, 1987.

In order to develop the industry averages, means were calculated for each category and weighted using data from the 1982 Census of Retail Trade. The Census data are shown in the table below. The stratification and weighting of data help eliminate year-to-year changes that result from changes in the survey sample.

We believe this method of developing average financial estimates for supermarket companies provides the best published measurement of trends in the supermarket industry's capital structure. It does not, however, totally eliminate the problems of changes in sample size and varying fiscal year ending points.

Supermarket Population Based on 1982 Census of Retail Trade*			
Firm Sales (Millions)	Percentage of Total Firms	1982 Sales	Percentage of Total Sales
Less than \$100	97.4%	\$ 57,792,633	30.25%
\$100 and Over	2.6	\$133,268,115	69.75
	<u>100.0%</u>	<u>\$191,060,748</u>	<u>100.00%</u>
*Source: U.S. Census Bureau (latest available data)			



DEFINITIONS

SELECTED BALANCE SHEET CAPTIONS

INVENTORY includes all goods held for sales by supermarket companies. Some firms value inventories on a first-in, first-out basis (FIFO). Others use a last-in, first-out (LIFO) basis of valuation. For the *Review*, the inventories are recorded as reported by the surveyed companies.

OTHER CURRENT ASSETS include all assets (except inventory) with a defined life of less than one year (e.g., cash, accounts receivable, prepaid expenses, short-term investments).

NET PROPERTY AND EQUIPMENT is all property, plant and equipment, including capital leases, less accumulated depreciation and amortization.

OTHER ASSETS include all assets (except property and equipment) with a defined life greater than one year (e.g., investments in other companies, long-term receivables).

CURRENT LIABILITIES include all debts and expenses that are due within one year (e.g., accounts payable, accrued liabilities, current portions of long-term debt).

LONG-TERM LIABILITIES include all debts and expenses that are due after one year (e.g., long-term debt, capital-lease obligation, deferred taxes).

NET WORTH is the difference between total assets and total liabilities. It typically comprises stock, paid-in surplus, retained earnings and treasury stock.

SELECTED INCOME STATEMENT CAPTIONS

SALES represent all sales reported by supermarket companies.

COST OF SALES AND OPERATING EXPENSES include the cost of merchandise sold by supermarkets plus all other expenses of operating the stores, distribution facilities and the central office.

INTEREST EXPENSE includes all interest charged on short- or long-term debt and on capital-lease obligations.

OTHER INCOME includes all non-operating income (e.g., interest income, gain on sale of securities).

TOTAL TAXES ON INCOME are the federal and state taxes imposed on the supermarket companies, which are based on net income as reported to the government.

EXTRAORDINARY ITEMS include all financial events that occur infrequently and are unusual (e.g., provisions for the disposition of facilities, realization of tax loss carry-forwards).

RATIOS

PROFIT MARGIN is the ratio of net income to sales.

RETURN ON TOTAL ASSETS is the ratio of net income to total assets.

RETURN ON NET WORTH is the ratio of net income to net worth.

INFLATION ADJUSTMENTS

INFLATION-ADJUSTED NET INCOME is equal to net income as reported in historical dollars, less "constant-dollar" adjustments to reflect the impact of inflation on (1) cost of sales (to remove the effect of inventory profits from cost of sales) and (2) depreciation (to increase the depreciation charge to reflect the current cost of replacing assets).

For the *Review*, inventory is adjusted for inflation with the percentage change in the Consumer Price Index (CPI) for food at home from December to December.

Depreciation expense is adjusted for inflation by a percentage change in the CPI starting with the year the depreciable property was acquired. The year of acquisition is estimated by dividing accumulated depreciation charges by annual depreciation expense to estimate the average age of depreciable assets.

CONSTANT-DOLLAR ACCOUNTING is a method of reporting financial data in dollars that have the same general purchasing power.

MONETARY ITEMS are assets or liabilities that cannot be converted directly to cash for the amount recorded on the balance sheet (e.g., inventory, property and equipment, deferred credits).

PURCHASING POWER GAIN OR LOSS normally is derived by restating in constant dollars the (1) opening and closing balance of monetary assets and liabilities and (2) transactions in monetary assets and liabilities. For the *Review*, the gain/loss in purchasing power is based on the net difference between monetary assets and monetary liabilities multiplied by the annual CPI increase.

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